TESTIMONY OF R. H. HALL, JR.

FOR

DUKE POWER COMPANY

SCPSC DOCKET NO. 94-006-E

Q. PLEASE STATE YOUR NAME, ADDRESS, AND POSITION WITH DUKE POWER COMPANY.

A. My name is R. H. Hall, Jr., and my business address is 400 South Tryon Street, Charlotte, North Carolina. I am General Manager, Fuels Purchasing for Duke Power Company.

Q. STATE BRIEFLY YOUR EDUCATION, BUSINESS BACKGROUND AND PROFESSIONAL AFFILIATIONS.

A. I attended the West Virginia Institute of Technology and graduated with a BS in Engineering in 1964. During college, I worked for a coal company and also for a mining equipment company. I joined Mill-Power Supply Company as a fuel trainee in the summer of 1964, progressed through various fuel purchasing positions and was appointed to my present position in March, 1978. I am a member of the North Carolina Coal Institute and the American Society of Mining, Metallurgical and Petroleum Engineers, Inc.

Q. MR. HALL, HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?

A. Yes, I have testified in connection with the applications by the Company to adjust its electric rates and charges based solely on changes in the cost of fuel. My last testimony was presented in Docket No. 94-005-E.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is to furnish information relating to our fuel purchasing and practices for the period April - September, 1994. My testimony will also include a summary of our fuel purchases and fuel inventories.

Q. MR. HALL, CAN YOU PROVIDE A SUMMARY OF DUKE'S FUEL PROCUREMENT PRACTICES?

A. Yes. The Company continues to follow the same procurement practices discussed in previous testimony, and a summary of those practices is as follows:

1. Estimating Fuel Requirements. Fuel requirements are estimated annually based on input data from several departments, including Forecasting, System Planning, Nuclear Production, Fossil Production, Operating and Fuel Purchasing.

2. Inventory Requirements. Monthly and annual fuel inventory requirements for each station and the system are determined after considering the Company's purchasing and production requirements. Final review and approval are provided by Duke's Executive Committee.

3. Covering of Fuel Requirements. On a monthly and annual basis, reviews are made of existing contracts and projected consumption to determine the need for additional spot or contract supplies.

4. Qualified Suppliers. A list of qualified suppliers is maintained along with detailed historical records of their performance and capabilities as to quantity, quality, loading capacities, etc. Invitations to bid are distributed to all qualified suppliers to cover additional or future contract needs.

5. Bid Evaluation. Contracts are awarded after a complete evaluation cycle including an on-site visit to the source to determine the capabilities of the suppliers.

6. Spot Purchases. To supplement our fuel supply, entry into the spot market is made on a month-by-month basis.

7. Expediting. All orders are expedited (monitored) closely as to performance against schedule quantity, quality, and proper bills of lading, etc. This expediting data is used to prepare a monthly performance report on each supplier.

8. Quality Control. The Company samples and analyzes all coal received at each station. These analyses are monitored closely against contract specifications and serve as the basis for final price determinations. All coal is also weighed at each station to verify freight charges assessed by the railroads.

9. Audits. The Company has audit rights in all its contracts. A formal audit of each contract is conducted by Duke's Internal Audit Department on a specified frequency or at any time a price adjustment is requested under the terms of the contract.

Q. YOUR TESTIMONY INCLUDES EXHIBITS. WERE THESE EXHIBITS PREPARED BY YOU OR AT YOUR DIRECTION AND UNDER YOUR SUPERVISION?

A. Yes. The exhibits were either prepared by me or at my direction and under my supervision.

Q. WHAT IS SHOWN ON HALL EXHIBIT I?

A. Hall Exhibit I is a summary of fuel statistics for the period April - September, 1994. It shows the quantities consumed, quantities purchased, and weighted average price for each fuel.

The delivered cost of coal for this period was relatively the same as for the previous six-month period. The average mine price increased $0.02 per ton while the average transportation cost increased $0.43 per ton. Spot coal prices ranged from $1.37 to $1.45 per million BTUs during the period. Coal prices increased in June and July due to heavy demand brought on by extremely warm temperatures. Demand and prices still remained at high levels in September as most consumers were attempting to replenish inventories before the winter months. Demand for both export and metallurgical coals has also impacted the availability of coal in Producing Districts 7 & 8, which is our normal purchasing area.

Oil and natural gas prices declined when compared to the previous period. This was expected due to seasonal reductions in demand for each of these fuels.

Uranium prices were much lower due to combination of new contracts, spot purchases, and expiration of older, higher priced contracts.

Q. WHAT IS HALL EXHIBIT II?

A. Hall Exhibit II shows inventories for each fuel at the beginning and end of this reporting period. Although coal inventory at the end of September was only slightly less than March, it really does not depict what occurred during the period. By the end of July coal inventory had been reduced to only 1.4 million tons. Most of the inventory gain was made during September. We expect to be near the 2 million level by the end of the year.

Q. WERE THERE ANY CHANGES TO DUKE'S COAL TRANSPORTATION RATES DURING THIS PERIOD?

A. Yes. Effective April 1, 1994, some rates were reduced 1.7%. In may some rates increased 0.5%. On July 1, 1994, rates increased 0.8%. In August there was another increase of 0.2%. All the changes were due to changes in the Interstate Commerce Commission approved Rail Cost Adjustment Factor Index.

Q. WHAT DO YOU FORESEE AS TO FUEL PRICES AND AVAILABILITY IN THE NEXT SIX MONTHS?

A. Prices for natural gas and oil will increase during the heating season. Natural gas, on an interrupible basis, will not be available during the winter months. We expect coal production to be normal. Prices for spot coal will be influenced by weather, exports, and metallurgical demand. We expect spot prices to remain relatively flat. Contract prices should increase at about the same rate as general inflation.

Q. MR. HALL, DOES THAT CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

HALL EXHIBIT I

FUEL PURCHASES AND CONSUMPTION

APRIL - SEPTEMBER, 1994

COAL	
Tons Burned	6,639,652
Tons Purchased	6,611,786
Avg. Mine Price/Ton	$31.14
Avg. Frt. Price/Ton	$10.32
Avg. Delivered Price/Ton	$41.46
Avg. Delivered Price/MMBtu	$1.6761
OIL	
Gallons Consumed	3,472,009
Gallons Purchased	3,003,433
Avg. Price/Gallon Purchased	$0.52
NATURAL GAS	
Mcf. Purchased	283,905
Avg. Price Mcf.	$3.72
URANIUM	
Pounds Purchased	1,021,109
Avg. Price/Pound	$11.84

HALL EXHIBIT II

FUEL INVENTORIES

	3/31/94	9/30/94
COAL (TONS)	1,716,096	1,694,167
#2 OIL (GALLONS)	4,740,303	4,222,906
URANIUM (POUNDS)	2,390,247	2,352,831